

**Blue Cross and Blue Shield of Maryland
in Owings Mills, Maryland**

Report No. 10-06-93-009

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Blue Cross and Blue Shield of Maryland (BCBS of Maryland) has its headquarters in Owings Mills, Maryland. This audit covered contract years 1988 through 1992. For the last contract year we audited (1992), the plan administered benefits for about 76,000 FEHBP subscribers in the state, which constituted four percent of the plan's total enrollees for that year.

We examined health benefits payments from January 1, 1991 through December 31, 1992, and administrative expenses from 1988 through 1992. For the two years we audited health benefit payments, BCBS of Maryland paid over 2.5 million claims, amounting to \$308.3 million in benefit payments. Health claims benefits were not audited for contract years 1988 and 1989 nor administrative expenses for 1987 due to expiration of the records retention period in each instance.

Our audit resulted in questioned costs for inappropriate charges to the FEHBP totaling \$6,004,195, including \$1,359,601 for lost investment income to the FEHBP trust fund. After reviewing the audit of BCBS of Maryland that preceded this one, we noted that the plan had continued its FEHBP contract noncompliance in several areas, including duplicate payments, refunds, coordination of benefits, and records retention. Listed below by audit category are several of the major findings resulting from our current audit.

<i>Questioned Costs to FEHBP Total \$6,004,195</i>

Health Benefits

To test BCBS of Maryland's compliance with FEHBP health benefit provisions, we examined 26 claim samples, consisting of 2,264 claim lines, representing \$4,222,697 in health benefits payments made from January 1, 1991 through December 31, 1992. Among the costs we questioned were health benefits charges relating to improper coordination of benefits with Medicare (\$960,608), duplicate payments (\$139,682), certain noncovered medical procedures (\$17,023), and specific claims with inadequate supporting documentation (\$12,351). In addition, we noted problems with the timely crediting of health benefits payment refunds to the FEHBP as prescribed in its FEHBP contract, resulting in a loss of interest income amounting to

\$290,849. We also found after reviewing the FEP claims system that significant problems with the FEP claims system existed and that the plan had not established procedures to readily identify, control and reconcile FEP accounts.

In all, inappropriate health benefits charges to the FEHBP totaled \$1,423,293. We have recommended that OPM's contracting officer direct the plan to return this amount to the FEHBP trust fund along with establishing or strengthening controls to avoid these and other problems described in our audit report.

Administrative Expenses

Our auditors also examined administrative expenses charged to the FEHBP by BCBS of Maryland and determined that in many instances they were not reasonable or proper expenses under the FEHBP contract. The following illustrate some of our findings in this area.

***Occupancy costs:* In contract years 1991-1992, the plan made incorrect occupancy (rent) charges to the FEHBP by reallocating costs through out-of-system adjustments to cost centers at the end of the year for which proper justification and accounting support could not be substantiated. The amount in question was \$318,155. The BCBS Association has concurred with this finding.**

***Nonchargeable cost centers:* BCBS of Maryland allocated and charged the FEHBP costs centers that did not benefit the FEHBP. As a result, in 1991 and 1992 contract years, the plan overcharged the FEHBP \$470,875. The BCBS Association also agreed with this finding and has assured us that the plan has strengthened its procedures to ensure that the FEP is allocated only costs from costs centers that actually benefit the FEHBP.**

Executive Compensation

The salary increases for executives at BCBS of Maryland during the period 1989 through 1992 were excessive. During a review of executive compensation, we observed a trend of significant increases in the total compensation paid to the top executives of the plan. This trend was not consistent with national statistics for executive salaries. In our audit report, we stated that it was unreasonable for plan executives to be enjoying pay raises of 7.8 percent to 44.8 percent while the economy and the plan's performance during the time frame in question suggested minimal or no increase in salary to have been more appropriate. As a consequence, we recommended that the contracting officer require the BCBS Association to monitor the plan's compensation policies to ensure that unreasonable salaries are not allocated and charged to the FEHBP in the future.

Auditors Determine Executive Compensation Excessive